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SUBJECT: KENANA, WHITE NILE PROJECT LEAD PLANS TO DEVELOP SUGAR AS STRATEGIC INDUSTRY

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¶1. (SBU) Summary: On January 25-26, econoff visited Kenana Sugar Company (KSC) and the nascent White Nile Sugar Project, the center of government plans to turn sugar into a strategic industry and propel economic growth in White Nile State. Built in the 1970s, Kenana stumbled upon opening but hit its stride in the mid-eighties and has remained a productive enterprise ever since, producing over 400,000 metric tons of sugar per year. The White Nile Project has scale and ambitions that rival Kenana's and a price tag of over US $1 billion. In addition to sugar production, executives at both companies told econoff they are looking to replicate Brazilian sugarcane-based bioethanol innovations and plan to produce ethanol for domestic fuel and industrial use, as well as for export. Foreign investors from Morocco, UAE and Kuwait have expressed strong interest in developing additional sugar projects in the region, according the Investment Commissioner of White Nile State, but KSC and White Nile executives were skeptical that such investment would materialize. They noted that for all the rhetoric about Sudan's potential, few (if any) foreign investors have successfully invested in Sudanese agriculture, preferring high-growth services industries instead. With regard to U.S. sanctions, executives from both companies noted that sugar production technology is not particularly sophisticated, and there are ample alternatives to U.S. equipment and technology on the world market. U.S. sanctions do, however, pose significant obstacles in the areas of banking and finance, they said. End Summary.

¶2. (SBU) On January 25-26, econoff visited the Kenana Sugar Company (KSC), one of the world's largest sugar mills. Once derided as a white elephant, Kenana has been touted as a great success over the past two decades. In recent years, it has produced over 400,000 metric tons of sugar annually, surpassing its expected output. Econoff toured the sprawling complex, which includes over 110,000 feddans (1 feddan equals 1.03 acres) of irrigable farmland, serviced by massive canals and pumping stations. Econoff also visited the harvesting control tower, where technicians from Kenya were implementing a digital tracking system to replace the large board with magnets tracking the location of trucks collecting cane from the farms. Additionally, Econoff toured Kenana's once state-of-the-art factory, whose U.S. design and French and Japanese equipment render it capable of processing 26,000 tons of raw sugar cane per day. A drive amongst the sprawling facilities also revealed a half dozen anti-aircraft guns and a Central Reserve Police presence to protect this vital (and expensive) investment.

KENANA GOING GREEN, LOOKING TO BRAZIL

¶3. (SBU) In discussions with econoff, KSC executives touted not only the company's longstanding productivity and operating efficiency, but its growing commitment to environmentally friendly practices. According to KSC Operations Director Dr. Yahia Mohamed Yousif,

Kenana is now "green harvesting" a portion of its fields, in contrast to the traditional practice of burning cane fields to rid the crop of debris prior to harvesting. By-products of the sugar refining process also are reused for a variety of endeavors, he said. Bagasse, the residue of cane after sugar extraction, is burned to generate electricity to run the factory, and other by-products are used to produce animal feed for sale. KSC is also experimenting with crop diversification, conducting trials with crops such as soybeans, sesame and guar (a legume used as an emulsifier) to test their commercial viability, according to officials in Kenana's research department.

¶4. (SBU) In the course of the tour of Kenana, econoff also saw the shiny new bioethanol plant currently being constructed to produce ethanol from molasses. The plant, which cost approximately US$35 million, was purchased from Brazilian manufacturer Dedeni and is expected to produce 60 million metric tons of ethanol per year. According to KSC's Yousif, it will begin production by March 2009 and produce ethanol for domestic fuel and industrial uses, as well as for export to Europe. (Note: In a January 26 interview with Al Intibaha Newspaper, the Director of KSC's ethanol plant, Dr. Ahmed Musa Raph, stated that KSC is also working with Sudanese automobile assembler GIAD to produce a special engine to run on ethanol. Ethanol ban also be mixed with gasoline in limited quantities in normal automobiles. End Note.)

¶4. (SBU) Kenana is increasingly looking to Brazil as a model for sugarcane farming and processing, as well as sugarcane-based bioethanol innovations. Dr. Yahia noted that "Sudan is the only country in Africa that could come close" to matching Brazil's vast scope of production of energy, agriculture and livestock. (Note: Brazil opened an Embassy in Khartoum in December 2006. Econoff spoke

to TDY Brazilian Charge d'Affaires Ssstenes ArRuda de Macedo, who had arrived in Khartoum several days prior. While noting significant Brazilian interest in the Sudanese agricultural sector, he had not yet acquainted himself with the portfolio. End Note.)

WHITE NILE SUGAR PROJECT: A KENANA FOR THE 21st CENTURY
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¶5. (SBU) Econoff also toured White Nile Sugar Project, a new sugar growing and refining operation that will rival Kenana itself. Located 120 km north of Kenana on the White Nile, the project aims to produce 450,000 metric tons of sugar, 60 million metric tons of ethanol and 128 megawatts of power annually, according to Project Manager Hassan A. Satti. KSC owns 26% of the project and is intimately involved with its implementation: KSC's consulting arm, KETS, is responsible for its design, and much of the implementation team (including Satti) have been seconded from Kenana. (Note: Other shareholders include the Arab Authority for Agricultural Development, the Government of Sudan, the Bank of Sudan, and a consortium of Sudanese banks. End Note.) Satti estimated the total cost for the project to be US $1.1 billion.

¶6. (SBU) Work on the project's irrigation infrastructure began in 2004 and is nearly complete, according to Satti. Econoff toured the first pumping station linking the 20 km main canal to the White Nile, which features ten gigantic European-made water pumps capable of pumping 6.5 cubic meters of water per second. The pump station is powered by a brand new diesel power plant, which will be relegated to backup status once the factory is built and begins to generate electricity from burning bagasse. Development of the farming area has progressed and the initial seeding of sugarcane has been completed, according to project staff. The building of roads, bridges and other civil works continues and a massive operation is currently underway to replace the soil underneath the planned site of the factory, which had been deemed unsuitable to build on. Contracts for the factory have been completed, according to Satti, and most have been financed. Some of the early equipment has arrived and in March 2010 the factory is expected to be operational, he said.

¶7. (SBU) Satti stated that with advances in the technology, White Nile is miles ahead of Kenana when it started. "Kenana has gone

through a lot to reach the levels of productivity it has today," he said. "We could surpass that easily even now." He credited technological and operational advances, but also the experience of White Nile staff, virtually all of whom have been seconded from KSC to work on the project. White Nile has also sought to reverse the traditional closed-community model of large integrated sugar companies, said Satti, and integrate itself into the local community. "We want to eat what they eat, and drink what they drink - that has been the motto," he said.

¶8. (SBU) Satti stated that White Nile officials have worked closely with local inhabitants to relocate 27 villages into seven complexes with services including water, schools, healthcare and mosques. In addition, local inhabitants have each been granted 600 square meter plots to farm. Satti stated that "95% of people have been happy with the resettlement," and that the area has remained peaceful, noting that for first four years of the project there was not a single policeman or security official in the area. (Now, completed facilities such as the diesel power generation plant are guarded by Central Reserve Police.) There are a small percentage of holdouts, he said, but White Nile officials are engaging with them to resolve the situation amicably. "We don't want another Merowe," he said (referring to the forceful displacement and agitation of villagers for the construction of Merowe dam in Sudanese Nubia).

FURTHER INVESTMENT IN SUGAR IN WHITE NILE STATE
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¶9. (SBU) In March 2008, the Sudanese Council of Ministers held a special session at Kenana headed by President Bashir in which Sudanese Minister of Industry Jalal Yousif Al-Degair announced a plan to develop sugar as a "strategic industry" through investments in new sugar projects. White Nile Sugar Project is at the center of these ambitious plans, but foreign investors--from Morocco, the UAE and Kuwait--have also expressed strong interest in four proposed additional sugar projects in White Nile State, according the state's Investment Commissioner Ali Mohamed Zain. Zain told econoff that feasibility studies and soil analysis were being conducted and the early results were quite positive. "Both banks of the White Nile are very suitable for the sugar growing," he said.

¶10. (SBU) Officials at Kenana and White Nile agreed that the area around Kosti was highly suitable to sugar growing and pointed to the high value of the sugar industry. "Production-wise, it's very

efficient and highly mechanized compared to other crops," said KSC's Yousif. Nor is there a danger of excess supply. Satti of White Nile stated that Sudan's sugar production does not currently meet its own demand, and estimated the deficit to be 300,000 tons per year. "We expect [the deficit] to reach half a million tons" per year, so there is still plenty of room for additional sugar factories, he said. Neighboring countries are also running sugar deficits, with Egypt as high as one million tons per year, he said. Satti was less optimistic about the prospect of foreign direct investment in the industry, noting that the most successful foreign investment in Sudan has occurred in high growth services industries such as banking and telecom. He was hard pressed to think of a single example of successful foreign investment in agriculture or even industry, with the exception of a cement project in Northern Sudan. "Agricultural development is still conducted by local investors," he said, noting that Kenana has plans to help rehabilitate crumbling local agricultural schemes nearby. The global financial downturn has also tampered the enthusiasm of foreign investors, he said.

IMPACT OF U.S. SANCTIONS

¶11. (SBU) Kenana has a long history of involvement with U.S. commercial interests as the factory was designed by, and at one point operated by, an American, and English remains the official language of the company. Though much of the factory equipment was produced in France, the cane harvesting equipment originally was American but this equipment has been phased out. "We only have five [Case IH] sugar harvesters left, and we even have to get rid of those due to lack of spare parts, lamented Yousif. At the White Nile

Sugar Project, Dr. Hassan stated that when the idea for the project was conceived, "the first question we asked was how we could do this without running into sanctions problems." He stated that while obtaining machinery and equipment had not proved difficult ("sugar technology is not particularly sophisticated and easy to find on the world market") the sanctions have made financing the project more difficult. "It's difficult not to deal at all with U.S. financial institutions" in the global financial markets, he said.

¶12. (SBU) Comment: The scale and scope of production at Kenana remains impressive, as are those envisioned by the White Nile project. Their impact on local employment is questionable, however, as Kenana has shed thousands of jobs over the years to mechanization. But based on Kenana's track record and the progress at the White Nile site, prospects for the sugar industry as a whole appear promising, according to officials at Kenana. These two projects also appear to be exceptions to an agricultural sector that many observers say is plagued by waste, poor planning and mismanagement. The potential for Sudanese farms is certainly vast, but those problems, as well as the lack of investment, must be overcome if agriculture is to supplant oil as the country's primary export earner when oil production and revenues decline in the years to come. Khartoum is especially eager to develop other industries given the decline in oil prices and the possibility of southern (where most of Sudan's oil is located) secession in 2011. End comment.

FERNANDEZ